



Billing Code 8025-01

## SMALL BUSINESS ADMINISTRATION

### 13 CFR Part 120

#### Maximum Allowable 7(a) Fixed Interest Rates

AGENCY: U.S. Small Business Administration.

ACTION: Notification announcing the maximum allowable fixed interest rates.

SUMMARY: This document announces the maximum allowable fixed interest rates for 7(a) guaranteed loans.

DATES: This announcement of interest rates is effective [insert date of publication in the Federal Register].

FOR FURTHER INFORMATION CONTACT: Robert Carpenter, Acting Chief, 7(a) Loan Program and Policy Branch, Office of Financial Assistance, U.S. Small Business Administration, 409 Third Street SW, Washington, DC 20416; telephone: (202) 205-7654; email: [robert.carpenter@sba.gov](mailto:robert.carpenter@sba.gov); or the Lender Relations Specialist in the local Small Business Administration (SBA) District Office. The local SBA District Office may be found at <https://www.sba.gov/tools/local-assistance/districtoffices>.

#### SUPPLEMENTARY INFORMATION:

Agency regulations at 13 CFR 120.213(a), Fixed Rates for Guaranteed Loans, state that “[a] loan may have a reasonable fixed interest rate. SBA periodically publishes the maximum allowable rate in the Federal Register.”

On September 30, 2009, SBA published a Federal Register Notice (74 FR 50263) establishing the use of the London Interbank Offered Rate (LIBOR) (as defined in 13

CFR 120.214(c)), plus 300 basis points, plus the average of the 5-year and 10-year LIBOR swap rates, as the SBA “Fixed Base Rate.” According to the September 30, 2009 Notice, the maximum allowable fixed interest rate for 7(a) loans (other than SBA Express and Export Express loans) was the Fixed Base Rate, plus a maximum allowable spread based on the term of the loan, plus an additional spread for very small loans.

On July 27, 2017, the U.K. Financial Conduct Authority announced that it would phase-out LIBOR by the end of 2021. No generally accepted replacement for LIBOR has been identified. To address the approaching sunset of LIBOR and the need for a new benchmark for the calculation of the maximum allowable fixed interest rate for a 7(a) loan, SBA will use the prime rate (Prime), as described in 13 CFR 120.214(c), as the base rate for determining the maximum allowable fixed interest rate for 7(a) loans (including SBA Express and Export Express loans).

SBA reviewed and compared the interest rate difference between the Fixed Base Rate and Prime from October 1, 2009 through August 1, 2018. The Fixed Base Rate was, on average, approximately 200 basis points higher than Prime during this period and, as of August 2018, the Fixed Base Rate was approximately 300 basis points higher than Prime. To address this difference, SBA is increasing the maximum allowable spread as follows: For 7(a) fixed rate loans of \$250,000 or less, SBA is setting the maximum allowable spread over Prime at 6% (plus the additional spread permitted under 13 CFR 120.215 for very small loans). For 7(a) fixed rate loans over \$250,000, SBA is setting the maximum allowable spread over Prime at 5%. The maximum allowable spread will no longer depend on the term of the loan.

The increase in the maximum allowable spread neutralizes the impact of replacing the Fixed Base Rate with Prime. A new fixed rate maximum also provides greater opportunity for Lenders to make loans using fixed rates and may offset the cost of underwriting, disbursing, and servicing loans of \$250,000 or less. SBA notes that the higher maximum interest rates permitted under 13 CFR 120.215 for very small loans (i.e., loans under \$50,000) continue to apply.

The interest rates set forth in this Notice are applicable to all 7(a) fixed rate loans (including fixed rate SBA Express and Export Express loans<sup>1</sup>), with the exception of the Export Working Capital Program<sup>2</sup> (EWCP) loans and Community Advantage loans. This Notice does not affect the allowable base rates used for variable rate loans as described in 13 CFR 120.214(c). SBA will address the variable rate bases, including a replacement for the LIBOR base rate, in a future rulemaking.

Effective [insert date of publication in Federal Register], for any complete 7(a) loan application received by SBA or any request for an SBA Loan Number submitted by a Lender with delegated authority (including fixed rate SBA Express and Export Express loans and excluding EWCP loans and Community Advantage loans), the maximum allowable fixed interest rate will be the Prime rate in effect on the first business day of the month plus:

(i) 600 basis points for loans of \$25,000 or less, plus the 200 basis points permitted by 13 CFR 120.215;

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<sup>1</sup> It should be noted that SBA's recently published proposed rule for the Express loan programs contemplates certain maximum fixed interest rates for SBA Express and Export Express loans. See 83 FR 49001 (September 28, 2018). Notwithstanding the proposed rule, today's Notice regarding Maximum Allowable 7(a) Fixed Interest Rates sets the maximum allowable fixed interest rates for SBA Express and Export Express loans at the same levels as the maximum fixed rates allowable for 7(a) loans generally. SBA will reflect any necessary changes when it finalizes the proposed rule.

<sup>2</sup> In accordance with 13 CFR 120.344(c), "SBA does not prescribe the interest rates for the EWCP, but will monitor these rates for reasonableness."

(ii) 600 basis points for loans over \$25,000 but not exceeding \$50,000, plus the 100 basis points permitted by 13 CFR 120.215;

(iii) 600 basis points for loans greater than \$50,000, up to and including \$250,000;

or

(iv) 500 basis points for loans over \$250,000.

The following examples compare the maximum fixed rate that was in effect during August 2018 with the maximum fixed rate established by this Notice, had it been in effect at that time:

Example 1: For a 7(a) loan (other than SBA Express or Export Express) in the amount of \$200,000 with a 7-year maturity, the maximum allowable fixed interest rate was 10.88% [8.13% (SBA Fixed Base Rate for August 2018 based on LIBOR) + 2.75% (SBA maximum spread for loans over \$50,000 with a maturity of 7 years or longer)].

The new maximum allowable fixed rate for the same loan would be 11.00% [5.00% (Prime rate for August 2018) + 6.00% (maximum spread over Prime for a fixed rate loan greater than \$50,000, but less than \$250,000, regardless of the maturity)].

Example 2: For an SBA Express or Export Express loan in the amount of \$200,000, the maximum allowable fixed interest rate was 9.5% [5.00% (Prime rate for August 2018) + 4.5% (maximum spread over Prime for an SBA Express or Export Express loan over \$50,000, regardless of maturity)].

The new maximum allowable fixed rate for the same loan would be 11.00% [5.00% (Prime rate for August 2018) + 6.00% (maximum spread over Prime for a fixed rate loan greater than \$50,000, but less than \$250,000, regardless of the maturity)].

Example 3: For a 7(a) loan (other than SBA Express or Export Express) in the amount of \$350,000 with less than a 7-year maturity, the maximum allowable fixed interest rate was 10.38% [8.13% (SBA Fixed Base Rate for August 2018 based on LIBOR) + 2.25% (maximum spread for loans over \$50,000 with a maturity less than 7 years)].

The new maximum allowable fixed rate for the same loan would be 10.00% [5.00% (Prime rate for August 2018) + 5.00% (maximum spread over Prime for a fixed rate loan greater than \$250,000, regardless of the maturity)].

Example 4: For an SBA Express or Export Express loan in the amount of \$35,000, the maximum allowable fixed interest rate was 11.5% [5.00% (Prime rate for August 2018) + 6.5% (maximum spread over Prime for an SBA Express or Export Express loan of \$50,000 or less, regardless of maturity)].

The new maximum allowable fixed rate for the same loan would be 12% [5.00% (Prime rate for August 2018) + 7.00% (maximum spread over Prime for a fixed rate loan greater than \$25,000, but less than \$50,000, regardless of the maturity)].

The maximum allowable fixed interest rate for 7(a) guaranteed loans will be published periodically by SBA in the Federal Register and posted monthly on SBA's website at [https://caweb.sba.gov/cls/dsp\\_login.cfm](https://caweb.sba.gov/cls/dsp_login.cfm).

Authority: 15 U.S.C. 636(a)(4)(A) and 13 CFR 120.213.

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